Written Testimony of
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Subcommittee on Federalism and the Census

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Good morning Chairman Turner and Members of the Subcommittee. My name is Douglas Apple. I am the General Manager, or the chief operating officer of the New York City Housing Authority ("NYCHA").

I appreciate the invitation to address the Subcommittee on the issue of whether the goal of deregulating public housing, as recommended by the *1998 Quality Housing and Work Responsibility Act* ("QHWRA"), has been achieved. The best way for me to address the question is to examine the situation now facing NYCHA.

NYCHA is the nation's largest housing authority, operating approximately 179,000 public housing apartments in 334 developments located in nearly every one of the City's residential communities. Our Section 8 program currently serves an additional 87,000 households, working cooperatively with almost 29,700 landlords providing apartments in privately-owned accommodations. Nearly one out of every 12 New Yorkers is assisted by NYCHA in meeting their needs for affordable housing. Moreover, NYCHA is an active partner, along with our sister agencies, in Mayor Michael R. Bloomberg's $7.5 billion *New Housing Marketplace Plan* that will build and preserve 165,000 affordable homes in New York City by 2013.

NYCHA's management is well respected around the country. HUD rates NYCHA as a high performer. In 2005, in connection with a bond financing to address outstanding capital needs that exceed our allocation of capital funding, NYCHA received an "AAA" rating from *Standard and Poors* and an "Aa3" rating from *Moody's Investors Service.*

Yet, resulting from federal operating subsidy that is not keeping pace with rising costs and local housing market factors, the Authority is now facing the prospect of close to a $168 million budget gap. This year presents unique challenges to the Authority as rising operational expenses, such as energy and labor, have produced a structural deficit that requires swift and significant action to regain financial balance.

Unlike many major urban cities, NYCHA has remained stable and has not demolished or disposed of its public housing. Much of this can be attributed to the economic mix of our 179,000 families. Over 40 percent of all families are working, and another one-third of households are led by seniors. We have been able to maintain this economic diversity and the consequent stability of public housing in the face of a rapidly changing real estate market in New York. A foundation of the stability and the economic mix is the extent to which we have been able to maintain rents as affordable.

However, faced with financial pressures, we are now forced to raise the rents paid by a small segment of our residents who pay ceiling or flat rents. Though rents under the proposal will be raised by $25-$106 per month, they will still be affordable and allow for hard-working families to remain in public housing. This initiative is a part of our recently announced *Seven-Point Plan to Preserve Public Housing ("Plan").* As part of the solution to NYCHA's fiscal crisis, we are pleased that Mayor Bloomberg has pledged $100 million in Transitional Aid from the City while NYCHA's long-term plans are put in place.

As part of our Plan to address our deficit without additional federal Operating Subsidies, we need to gain HUD's designation as a *Moving to Work* ("MTW") agency to make our Plan fully operational within the necessary time frame. MTW status will also enable NYCHA the opportunity to better apply flexible federal funding to meet our local needs, to provide relief from other unfunded mandates and non-essential administrative costs, to streamline federal rules and regulations and to implement housing and self-sufficiency strategies.

The fiscal crisis we have all feared is here today[1]. It is the reality that my Authority now faces and one that other housing agencies will shortly experience unless our programs are fully funded, we are authorized to combine our funding sources where necessary and the de-regulation promised by QHWRA becomes a reality by opening MTW to well performing, moderate and large housing authorities.

How did we arrive at this circumstance? Basically, the public housing program has been short-funded for years. Cumulatively, since 2001, the impact of pro-ration to NYCHA has resulted in $258.6 million of un-reimbursed operating expenses. The national housing interest groups estimate that operating assistance will be pro-rated at 90% in 2006 and, if the Administration's budget recommendation is adopted, at 78% in 2007.

Federal funding for the public housing capital program is far worse. Appropriations have dropped by 17.5% from 2001 to 2006. We, in New York have taken proactive steps to maintain our capital program through the Capital Fund Financing Program ("CFFP"). Last year, we issued $300 million in bonds and plan to issue a similar amount this year. This type of creative financing will allow us to better maintain our buildings. But it alone is not enough. Congress must provide more capital funds to meet the needs of housing authorities and preserve this critical form of affordable housing.

Providing housing authorities with the ability to access capital markets was one of the visions of QHWRA. Unfortunately, the broader vision; streamlining the public housing program so we could operate more effectively, be less driven by rules that were process-oriented and not outcome driven, tie funding to performance and give housing authorities the autonomy they need to provide high quality housing in their local markets, has not been achieved. Instead, HUD continues to develop rules that require the 3,200 authorities throughout the country to operate in the same restrictive and prescribed fashion.

One such example of this debate is the new Operating Fund rule, which takes effect in January 2007. We strongly support the effort to move to asset management and project-based budgeting/accounting and project-based management. In fact, in the first quarter of this year, we have produced financial statements for each property. Our budget, recently released and on our

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[1] I will be pleased to answer questions from the Subcommittee regarding NYCHA's financial condition. However, for the record, our webpage contains extensive and detailed documentation on the issue. The Authority's webpage is located at http://www.nyc.gov/html/nycha/html/home/home.shtml

web site, is detailed for each of our 344 properties. Notwithstanding our new budget and management practices, we remain concerned that HUD's rule, necessarily written generically for all housing authorities, may limit our ability to provide quality services to residents, adds significant administrative burdens, as well as additional paperwork for both our staff and the HUD field staff monitoring our efforts. A better system would allow each authority to develop budgets and budget-based systems, predicated on their own needs and have HUD monitor the outcomes, as opposed to all the thousands of pages of financial statements that we are required to produce.

Anticipating funding shortfalls, QHWRA concluded that it would be in the best interest of the public, and the low-income community, if the public housing program were to be streamlined and if the maximum feasible discretion and authority are vested in well performing public housing agencies. I urge Congress to take the necessary actions to make deregulation a reality.

A fine example of what can be achieved when regulatory and statutory restraints are removed is the *Moving to Work* program, which came into being with the passage of the 1996 VA-HUD Appropriation Act. This demonstration allowed selected agencies to combine their funding streams and to craft, with HUD's cooperation, the type of deregulation that has allowed Chicago, Atlanta and the District of Columbia to experience a rebirth of public and mixed-income communities and the creation of attractive and desirable neighborhoods of which we can all be proud.

The time has come to end the demonstration program and to declare MTW to be the success we all know it to be. HUD Secretary Alfonso Jackson has endorsed the MTW concept, although continues his commitment to a format that has garnered little support within the Congress or within the industry. We appreciate the Secretary's leadership and bold vision, but the time has come to move forward with a politically attainable proposal.

To achieve the deregulation called for by QHWRA, Congress must open the MTW program. HUD should be directed to allow well-performing, large and moderate-sized housing authorities to transition to MTW and allow current participants to continue to utilize the MTW format. *If NYCHA were granted MTW status today, the program's fungibility factor alone would allow us the ability to close nearly $40 million of our fiscal deficit* ***without seeking a single additional dollar of appropriated assistance***. The best practices learned during the demonstration period should be available to new participants. Limitations on the number of participating agencies should be dropped. Moreover, the term of eligible participation should be discarded, allowing agencies to take advantage of the program's flexibility to adopt different formats as local conditions change and merit modification. That would end the annual trek to Capital Hill to have current agreements extended for additional time periods. We support legislation that fulfills the promise of QHWRA and makes MTW available to all. We understand that a proposal by CLPHA and PHADA does that and we encourage Congress to consider it in the on-going debate.

Finally, there is only so much that can be achieved through deregulation. Without full funding, the struggle continues. Simply stated, Congress must fully fund both the Operating Subsidy and the Capital Fund. Deregulation, with reduced funding, will only result in other agencies facing the financial crisis that are now faces New York City.

Thank you.